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**Transcript Exhibit(s)**

**Docket #(s):** W-02255A-07-0570

W-02255A-08-0355

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**Exhibit # :** 51, 52, 53

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Arizona Corporation Commission

**DOCKETED**

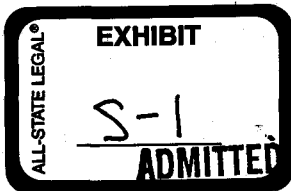
OCT 15 2008

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AZ CORP COMMISSION  
DOCKET CONTROL

2008 OCT 15 P 4: 08

RECEIVED



MEMORANDUM

RECEIVED **LEGAL**

TO: Docket Control

FROM: Ernest G. Johnson  
*for* Director  
Utilities Division

DATE: June 23, 2008

RE: STAFF REPORT FOR YARNELL WATER IMPROVEMENT ASSOCIATION, INC'S., APPLICATION FOR A PERMANENT RATE INCREASE, DOCKET NO. W-02255A-07-0570

RECEIVED

JUN 23 2008

LEGAL DIV.  
ARIZ. CORPORATION COMMISSION

2008 JUN 23 P 1:08

AZ CORP COMMISSION  
DOCKET CONTROL

Attached is the Staff Report for Yarnell Water Improvement Association, Inc's. application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 3, 2008.

EGJ:CRM:tdp

Originator: Charles R. Myhlhousen

FILE COPY

Service List for: Yarnell Water Improvement Association  
Docket No. W-02255A-07-0570

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**YARNELL WATER IMPROVEMENT ASSOCIATION, INC.**

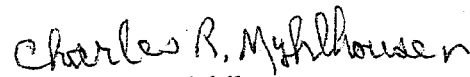
**DOCKET NO. W-02255A-07-0570**

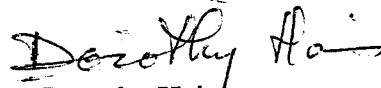
**APPLICATION FOR A  
PERMANENT RATE INCREASE**


**JUNE 23, 2008**

## STAFF ACKNOWLEDGMENT

The Staff Report for Yarnell Water Improvement Association, Inc., Docket No. W-02455A-07-0570, was the responsibility of the Staff members listed below. Charles R. Myhlhousen was responsible for the review and analysis of the Company's application, recommended revenue requirements, rate base and rate design. Dorothy Hains was responsible for the engineering and technical analysis. Deborah Reagan was responsible for reviewing the Commission's records on the Company and reviewing customer complaints filed with the Commission.

  
Charles R. Myhlhousen  
Public Utility Analyst III

  
Dorothy Hains  
Utilities Engineer

  
Deborah Reagan  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY**  
**YARNELL WATER IMPROVEMENT ASSOCIATION, INC.**  
**DOCKET NO. W-02255A-07-0570**

Yarnell Water Improvement Association, Inc. ("Company") is located approximately 30 miles southwest of Prescott, Arizona on Highway 89. The Company is engaged in the business of providing water utility service exclusively to Arizona customers in Yavapai County. The Company provides service to approximately 531 customers. The Company's current rates were effective July 1, 2006. These rates are the same rates that were effective in the Company's previous rate case Decision No. 68747 dated June 6, 2006.

The Company's rate application requested an increase in revenue of \$44,788 or a 19.41 percent increase over test year revenue of \$230,712. The Company's proposed revenues of \$275,500 result in an operating income of \$44,788, for an operating margin of 16.26 percent. The Company's requested rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$32.01, for an increase of \$5.16 or 19.2 percent.

Staff is recommending an increase over test year revenue of \$45,090 or a 19.54 percent increase over test year revenue of \$230,712. Staff's recommended revenues of \$275,009, result in an operating income of \$59,772, for an operating margin of 21.73 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$31.42, for an increase of \$4.57 or 17.0 percent.

Staff's recommendation will allow the Company sufficient revenue to make the principal and interest payments on approved loans. Staff is recommending approval of a previously executed financing for a vehicle.

Staff's recommended rates and charges would provide an operating income of \$59,772 for an operating margin of 21.73. The operating margin is abnormally high in this instance, because the operating margin is driven by the debt service coverage ("DSC") to give the Company sufficient cash to service its debt and for contingencies.

**Staff recommends:**

- Approval of Staff's rates and charges as shown on Schedule CRM-16. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D-5).
- The Company shall docket with the Commission, a schedule of its approved rates and charges within 30 days after a Decision in this matter is issued.
- The Company shall use depreciation rates delineated in Exhibit 6 of the Engineering Report on a going-forward basis.

- Approval of the financing in the amount of \$19,827, already executed for the purchase of a vehicle.
- That the Company continue to reduce its water loss. Staff further recommends that the Company monitor both the gallons pumped and gallons sold to determine the actual water loss on an annual basis. The monitoring report should be docketed as a compliance item in this case within 13 months of the effective date of the Order issued in this proceeding. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.
- That the Company obtain the Commission's approval for any long-term financing prior to its execution in the future.

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## ATTACHMENT

Engineering Report.....	A
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**Fact Sheet**

**Current Rates:** Decision No. 68747, June 5, 2006, rates effective as of July 1, 2006.

**Type of Ownership:** Arizona Non-Profit Corporation.

**Location:** The Company serves customers in Yavapai County.

**Rates:**

Permanent rate increase application filed: October 5, 2007, amended December 3, 2007,  
December 7, 2007, January 18, 2008, and February 25, 2008.

Current Test Year Ended: December 31, 2006.

**Monthly Minimum Charges:**

	<u>Company Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge Based on 5/8 X 3/4 inch meter	\$21.00	\$22.00	\$23.00
Gallons in Minimum	0	0	0
Commodity Charge Excess of minimum, per 1,000 gallons			
Tier One zero gallons to 5,000 gallons	2.50	3.00	
Tier Two from 5,001 gallons to 10,000 gallons	3.50	4.20	
Tier Three from 10,001 gallons to 50,000 gallons	4.75	5.70	
Tier Four all gallons over 50,000 gallons	6.00	7.20	
Tier One zero gallons to 3,000 gallons			3.60
Tier Two 3,001 gallons to 7,000 gallons			4.10
Tier Three 7,001 gallons to 50,000 gallons			5.75
Tier Four all gallons over 50,000 gallons			7.00
Typical residential bill (Based on median usage of 2,208 gallons)	\$26.85	\$32.01	31.42

**Customers:**

Average number of customers in prior test year 521, current test year 531.

**Notification:**

Customer Notification was mailed originally on September 28, 2007 and was corrected, and resent on November 27, 2007.

**Complaints:**

A review of Consumer Service records reveals that there were no complaints from January 1, 2005, through May 31, 2008.

**Summary of Filing**

Based on test year results, as adjusted by Arizona Corporation Commission ("Commission") Utilities Division Staff ("Staff"), Yarnell Water Improvement Association, Inc. ("Company") realized an operating income of \$12,772, for a 5.55 percent operating margin as shown on Schedule CRM-1.

The Company proposed rates produce operating revenue of \$275,500 and an operating income of \$44,778, for an operating margin of 16.26 percent. The Company's proposed rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$32.01, for an increase of \$5.16 or 19.2 percent.

Staff's recommended rates produce operating revenue of \$275,009 and an operating income of \$59,772, for an operating margin of 21.73 percent. Staff's recommended rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$31.42, for an increase of \$4.57 or 17.0 percent.

The Company is a class C utility.

**Company Background**

The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 44085, dated April 22, 1974. The Company's prior rate application utilized a test year ending December 31, 2004.

On October 5, 2007, the Company filed an application for a permanent rate increase with the Commission. On November 5, 2007, the Company filing was found deficient. On December 3, 2007, December 7, 2007, January 18, 2008, and February 25, 2008, the Company submitted the deficient items. On March 3, 2008, the application was deemed sufficient. The Company's current test year ends December 31, 2006.

The Company has been operating at a loss the last several years. Salaries and other operating expenses have increased. The Company wants to replace their 22-year old telemetry system as soon as possible. The system is prone to malfunctioning and replacement parts are no longer available. The fire hydrants are aged and need to be replaced as part of the water loss prevention program. The Company needs a back-up generator as part of its emergency plan. The Company does not expect the customer base to increase. The Company states that by the end of the year it will have exhausted reserves to fund these losses but will continue to service debt. The Company is requesting a new tariff item for fees for having to cross a public highway to install a service line. The Company incurs currently, from \$65.00 to \$500.00 in permit fees to access the main water line to add a service line that is across a public highway which is not in the Company's current tariff. These permit fees are not included in the tariff for service line and meter installation charges. These permit fees would only apply when it is required to cross a public highway to add a service line.

The Company has 15% water loss which exceeds Staff's recommended 10% allowable limit.

**Consumer Services:**

A review of the Commission's records from January 1, 2005, through May 28, 2008, revealed that there were zero customer complaints and six opinions. One opinion was in favor of the proposed rate increase, and five opinions were opposed.

**Compliance:**

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

The Company is current in its property and sales tax payments.

The Company is in good standing with the ACC Corporations Division.

The Company is in compliance with the new arsenic maximum contaminant level.

The Arizona Department of Environmental Quality ("ADEQ") has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

The Company is not located within any Active Management Area ("AMA") and is not subject to AMA conservation and monitoring requirements. Staff received a compliance status report from Arizona Department of Water Resources ("ADWR") dated June 11, 2008, in which ADWR has determined that Yarnell Water Improvement Association is currently in compliance with departmental requirements governing water providers and/or community water systems.

**Rate Base:**

Staff made no adjustments to the Company's rate base of \$562,403. See Schedule CRM-3.

**Plant-in-Service:**

Staff did not make any adjustments to plant in service. Staff concurs with the Company's plant in service in the amount of \$1,661,629 less accumulated depreciation in the amount of \$1,076,098. Staff's recommended net plant in service is \$585,531. See Schedules CRM-3 and CRM-5.

**Accumulated Depreciation:**

Staff concurs with the Company's proposed accumulated depreciation of \$1,076,098.

Staff's accumulated depreciation amount was calculated by adding depreciation expense for the years 2004 through 2006 and subtracting accumulated depreciation for plant retirements from the Commission approved accumulated depreciation balance in the prior test year ended December 31, 1999, of \$1,357,003 arriving at accumulated depreciation of \$1,076,098. See Schedule CRM-4.

**Advances-in-Aid-of-Construction:**

The Company has no advances-in-aid-of-construction.

**Contributions-in-Aid-of-Construction:**

The Company has no contributions-in-aid-of-construction.

**Working Capital:**

The Company did not claim any working capital allowance. Staff typically only allows cash working capital allowance calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Utilities classified as A, B or C are larger and Staff believes that the formula method does not accurately reflect the related cash working capital needs. Typically, Staff finds that proper lead/lag studies usually produce a negative cash working capital need. Staff recommends no working capital allowance in this case.

**Financing:**

The Company purchased a new Ford Ranger pick-up truck on May 12, 2006. The Company arranged long-term financing for this vehicle through Ford Motor Credit for a period

of five-years on a total amount of \$19,827. The Company did not seek or get approval for this long-term financing from the Commission. The Company had a 1990 Toyota pick-up truck which was involved in an accident. Staff recommends approval of this long-term financing retroactive from May 12, 2006, when the new pick-up was purchased and will recommended sufficient revenue to service this loan. Staff recommends that the Company obtain the Commission's approval for any long-term financing prior to its execution in the future.

The Company has two other loans which were approved by the Commission. The loans are with the United States Department of Agriculture-Farmers Home Administration ("USDA-FHA"), acquired June 25, 1974, and April 25, 1975. The unpaid balances of these loans are \$270,691 and \$18,059, respectively. The dates of maturity on these loans are June 25, 2014, and April 25, 2015. See Schedule CRM-14. Staff recommends sufficient revenue to service these loans. Staff's recommended revenue requirement is driven by debt service coverage ("DSC") of 1.66, which will give the Company sufficient revenue to service its debt and for contingencies. See Schedule CRM-15.

#### **Operating Revenue:**

Staff made an adjustment to other water revenue, decreasing it by \$793 from \$2,793 to \$2,000. The Company does not expect any additional growth and other water revenue has decreased considerably in the one and one-half years after the test year. Staff reviewed the amount of other water revenues collected thus far in the year 2008. The amount collected from January 2008 through May 2008, is less than \$1,000. Based on this information Staff adjusted the other water revenues to reflect this finding. Staff recommends adjusting other water revenue to a level that more clearly reflects the correct amount expected to be received on a going-forward basis. The Company's bill count revenue matched the revenue shown in the application and that reflects the test year revenue. Staff did not have to annualize revenue because the same rates that became effective in the most recent rate application Decision are the same rates that were in effect in the prior Decision No. 68747 dated June 6, 2006. The same rates are applicable for the entire 2006 test year. Staff's recommended operating income is \$59,772. See Schedules CRM-7 and CRM-8.

#### **Operating Expenses:**

Staff's adjustments to operating expenses resulted in a decrease of \$1,674 from \$218,821 to \$217,147 as shown on Schedule CRM-6 and CRM-7. Adjustments are discussed below.

Adjustment 1: Staff decreased other water revenues by \$793 from \$2,793 to \$2,000 to more clearly reflect the Staff's analysis of other water revenues received in year 2007, and the amount received thus far in the 2008 year.

The Company does not expect any additional growth, and other water revenue has decreased considerably in the one and one-half years after the test year. Staff reviewed the amount of other water revenues collected thus far in the year 2008. The amount collected from

January 2008 through May 2008 is less than \$1,000. Based on this information Staff adjusted the other water revenues to reflect this finding. Staff recommends adjusting other water revenue to a level that more clearly reflects the correct amount expected to be received on a going-forward basis. See Schedule CRM-8.

Adjustment 2: Staff decreased office supplies and expense by \$152, from \$16,172 to \$16,020, to remove the cost of the Company's Christmas dinner held at a local restaurant because it was a social event and not necessary to provide service. See Schedule CRM-9.

Adjustment 3: Staff decreased water testing by \$287 from \$4,290 to \$4,003 to reflect Staff's recommended expense level. This adjustment reflects the annual water testing costs determined per Staff's Engineering Report at Table A. See Schedule CRM- 10.

Adjustment 4: Staff decreased Repairs and Maintenance Expense by \$678, from \$12,097 to \$11,419, to remove the cost, not covered by insurance, of body repair to the Toyota pickup which was involved in an accident. Staff believes this to be a non-recurring expense. See Schedule CRM-11

Adjustment 5: Staff increased depreciation expense by \$1,724, from \$33,669 to \$35,393, to reflect the amount of depreciation expense on a going-forward basis. See Schedule CRM- 12.

Adjustment 6: Staff decreased property taxes by \$2,281, from \$14,139 to \$11,858, to reflect the decreased property taxes due to the Company, including prior year's past due property taxes paid in 2006. The property taxes were further decreased by \$1,910 from \$11,858 to \$9,948, based on Staff's recommended revenue. See Schedules CRM-13 and CRM-16.

### **Operating Margin**

Staff's recommended rates and charges would provide an operating income of \$59,772 for an operating margin of 21.73 percent. The operating margin is abnormally high in this instance because the operating margin is driven by the DCS to give the Company sufficient cash to service its debt and for contingencies. See Schedule CRM-1.

### **Revenue Requirement**

The operating revenue for the Company has not been increased in approximately six years.

Revenue stability is an important concern because the Company must pay the debt service on three separate loans. The Company is a non-profit corporation.

Staff recommends total operating revenue of \$275,009, an increase of \$45,090, over the Staff's adjusted test year revenue of \$229,919. Staff's recommendation provides operating income of \$59,772. The revenue requirement is driven by a DSC of 1.66. See Schedules CRM-1 and CRM-15.

### **Rate Design**

Schedule CRM-17 reflects a complete list of the Company's present and proposed rates, as well as Staff's recommended rates and charges.

The Company's proposed rates would increase the median usage residential customer bill by \$5.16 from \$26.85 to \$32.01, or 19.20 percent.

Staff's recommended rates would increase the median usage residential customer bill by \$4.57 from \$26.85 to \$31.42, or 17.00 percent.

The Company currently has a four-tier inverted rate design for all meter sizes. Staff recommends retaining the four-tier inverted rate design for the 5/8 x 3/4 inch and 3/4 inch meters and a three-tier inverted rate design for larger sizes meters. Staff concurs with the current tariff of \$10.00 per 1,000 gallons for construction/bulk water.

Staff recommends approval of Staff's Service Line and Meter Installation Charges. Staff's recommendation will help ensure that the Company has enough cash to pay for the actual installation of service for any meter size.

The Company did not propose charges for fire sprinklers. Staff recommends charges for fire sprinklers.

The Company proposed increases to service charges as follows (See Schedule CRM-17):

- Establishment charge from \$40.00 to \$48.00.
- Reconnection (delinquent) from \$40.00 to \$48.00.
- After Hours Surcharge from \$20.00 to \$24.00.
- Meter Test from \$30.00 to \$36.00.
- Deposit from \$70.00 to \$84.00.
- Re-establishment (within 12 months per month) from \$21.00 to \$25.00.
- Not Sufficient Funds check form \$25.00 to \$30.00.
- Meter Re-read (if correct) from \$10.00 to \$12.00.
- Road Permit Fee from zero percent to 100 percent of Fee Charged.

Staff concurs with all service charge increases.



### **Staff Recommendations**

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per A.A.C. R14-2-409.D.5.
- The Company shall docket with the Commission, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- The Company shall use the depreciation rates delineated in paragraph K of Exhibit 6 of the Engineering Report on a going forward basis.
- Approval of the financing in the amount of \$19,827, already executed for purchase of a vehicle.
- Staff recommends that the Company continue to reduce its water loss. Staff further recommends that the Company monitor the gallons pumped and gallons sold to determine the actual water loss on an annual basis. The monitoring report should be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.
- That the Company obtain the Commission's approval for any long-term financing prior to its execution in the future.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR COST
1	Adjusted Rate Base	\$ 573,986	\$ 573,986	\$ 573,986	\$ 573,986
2	Adjusted Operating Income (Loss)	\$ 11,891	\$ 11,891	\$ 14,344	\$ 14,344
3	Test Year Operating Revenue	\$ 230,712	\$ 230,712	\$ 229,919	\$ 229,919
4	Current Operating Margin (L2/L3)	5.15%	5.15%	6.24%	6.24%
5	Recommended Operating Margin	16.26%	16.26%	22.31%	22.31%
6	Required Operating Income	\$ 44,788	\$ 44,788	\$ 61,344	\$ 61,344
7	Proposed/Recommended Operating Revenues Increase	\$ 44,788	\$ 44,788	\$ 45,090	\$ 45,090
8	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
9	Proposed/Recommended Operating Revenues Increase	\$ 44,788	\$ 44,788	\$ 45,090	\$ 45,090
10	Proposed/Recommended Annual Revenue	\$ 275,500	\$ 275,500	\$ 275,009	\$ 275,009

References:

Column (A): Company Schedules (various)  
Column (B): Company Schedules (various)  
Column (C): Staff Schedules CRM-2, CRM-5  
Column (C): Staff Schedules CRM-2, CRM-5

Yarnell Water Improvement Association  
Docket No. W-02255A-07-0570  
Test Year Ended December 31, 2006

Schedule CRM-2

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 1,661,629	\$ -	\$ 1,661,629
2	Less: Accumulated Depreciation	1,076,098	-	1,076,098
3	Net Plant in Service	<u>\$ 585,531</u>	<u>\$ -</u>	<u>\$ 585,531</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ -	\$ -	\$ -
5	Less: Accumulated Amortization	-	-	-
6	Net CIAC	<u>-</u>	<u>-</u>	<u>-</u>
7	Advances in Aid of Construction (AIAC)	-	-	-
8	Customer Deposits	11,545	-	11,545
9	Deferred Income Tax Credits	-	-	-
<u>ADD:</u>				
10	Unamortized Finance Charges	-	-	-
11	Deferred Tax Assets	-	-	-
12	Working Capital	-	-	-
13	Original Cost Rate Base	<u>\$ 573,986</u>	<u>\$ -</u>	<u>\$ 573,986</u>

References:

Column (A), Company Schedules (various)  
Column (B): Schedule CRM-4  
Column (C): Column (A) + Column (B)

Yarnell Water Improvement Association  
Docket No. W-02255A-07-0570  
Test Year Ended December 31, 2006

Schedule CRM-3

**PLANT IN SERVICE**

LINE NO.	ACCT. NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF ADJUSTED
1					
2	301	Organization	\$ 24,471	0 \$	24,471
3	302	Franchises	34,884	0	34,884
4	303	Land and Land Rights	23,732	0	23,732
5	304	Structures & Improvements	59,612	0	59,612
6	305	Collecting & Impounding Reservoirs	-	0	-
7	306	Lakes, Rivers, Other Intakes	-	0	-
8	307	Wells and Springs	1,784	0	1,784
9	308	Infiltration Galleries and Tunnels		0	
10	309	Supply Mains		0	
11	310	Power Generation Equipment		0	
12	311	Pumping Equipment	81,277	0	81,277
13	320	Water Treatment Plant	72,507	0	72,507
14	320.1	Solution Chemical Feeders	4,908	0	4,908
15	330	Distribution Reservoirs & Standpipes	151,423	0	151,423
16	331	Transmission & Distribution Mains	866,661	0	866,661
17	333	Services	2,976	0	2,976
18	334	Meters	77,581	0	77,581
19	335	Hydrants	61,755	0	61,755
20	336	Backflow Prevention Devices		0	
21	339	Other Plant & Misc. Equipment	33,805	0	33,805
22	340	Office Furniture & Equipment	3,041	0	3,041
23	340.1	Computers and Software	2,357	0	2,357
24	341	Transportation Equipment	21,483	0	21,483
25	342	Stores Equipment	-	0	-
26	343	Tools, Ship & Garage Equipment	5,285	0	5,285
27	344	Laboratory Equipment	-	0	-
28	345	Power Operated Equipment	400	0	400
29	346	Communication Equipment	-	0	-
30	347	Miscellaneous Equipment	30,572	0	30,572
31	348	Other Tangible Plant	101,115	0	101,115
32			<u>\$ 1,661,629</u>	<u>0 \$</u>	<u>1,661,629</u>

**ACCUMULATED DEPRECIATION**

Line ACCT DESCRIPTION  
No. NO.

		Depreciation Rate	Company Accumulated Depreciation	Staff Adjustments	Staff Adjusted
1	301 Organization Cost	0%	\$ -	-	\$ -
2	302 Franchise Cost	0%	-	-	-
3	303 Land and Land Rights	0%	-	-	-
4	304 Structures and Improvements	3.33%	44,923	-	44,923
5	305 Collecting and Impounding Res.	0%	1,784	-	1,784
6	306 Lake River and Other Intakes	0%	-	-	-
7	307 Wells and Springs	3.33%	-	-	-
8	308 Infiltration Galleries and Tunnels	0%	-	-	-
9	309 Supply Mains	0%	-	-	-
10	310 Power Generation Equipment	0.00%	-	-	-
11	311 Electric Pumping Equipment	12.50%	68,749	-	68,749
12	320 Water Treatment Equipment	3.33%	72,507	-	72,507
	320.1 Solution Chemical Feeders		4,908	-	4,908
13	330.1 Distribution Reservoirs & Standpipe	2.22%	92,131	-	92,131
14	331 Transmission and Distribution Mains	2.00%	546,042	-	546,043
15	333 Services	3.33%	2,976	-	2,976
16	334 Meters	8.33%	66,388	-	66,388
17	335 Hydrants	2.0%	27,574	-	27,573
18	336 Backflow Prevention Devices	6.67%	-	-	-
19	339 Other Plant and Miscellaneous Equipment	6.67%	27,196	-	27,196
20	340 Office Furniture and Fixtures	6.67%	2,588	-	2,588
21	341 Transportation Equipment	20.00%	2,148	-	2,148
22	340.1 Computers and Software	20.00%	884	-	884
23	343 Tools and Work Equipment	5.00%	1,269	-	1,269
24	344 Laboratory Equipment	0.00%	-	-	-
25	345 Power Operated Equipment	5.00%	40	-	40
26	346 Communications Equipment	10.00%	-	-	-
27	347 Miscellaneous Equipment	10.00%	12,877	-	12,877
28	348 Other Tangible Plant	10.00%	101,115	-	101,115
29	Total		\$ 1,076,098		\$ 1,076,098

**SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS**

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>					
1					
2	301	Organization	\$ 24,471	\$ -	\$ 24,471
3	302	Franchises	34,884	-	34,884
4	303	Land and Land Rights	23,732	-	23,732
5	304	Structures & Improvements	59,612	-	59,612
6	305	Collecting & Impounding Reservoirs	-	-	-
7	306	Lakes, Rivers, Other Intakes	-	-	-
8	307	Wells and Springs	1,784	-	1,784
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	-	-
12	311	Pumping Equipment	81,277	-	81,277
13	320	Water Treatment Plant	72,507	-	72,507
14	320	olution Chemical Feeders	4,908	-	4,908
15	330	Distribution Reservoirs & Standpipes	151,423	-	151,423
16	331	Transmission & Distribution Mains	866,661	-	866,661
17	333	Services	2,976	-	2,976
18	334	Meters	77,581	-	77,581
19	335	Hydrants	61,755	-	61,755
20	336	Backflow Prevention Devices	-	-	-
21	339	Other Plant & Misc. Equipment	33,805	-	33,805
22	340	Office Furniture & Equipment	3,041	-	3,041
23	340	Computers and Software	2,357	-	2,357
24	341	Transportation Equipment	21,483	-	21,483
25	342	Stores Equipment	-	-	-
26	343	Tools, Ship & Garage Equipment	5,285	-	5,285
27	344	Laboratory Equipment	-	-	-
28	345	Power Operated Equipment	400	-	400
29	346	Communication Equipment	-	-	-
30	347	Miscellaneous Equipment	30,572	-	30,572
31	348	Other Tangible Plant	101,115	-	101,115
32			<u>1,661,629</u>	-	<u>1,661,629</u>
33	Add:		-	-	-
34			-	-	-
35			-	-	-
36			-	-	-
37	Less:		-	-	-
38			-	-	-
39			-	-	-
40					
41	Total Plant in Service		\$ 1,661,629	-	\$ 1,661,629
42	Less: Accumulated Depreciation		1,076,098	-	1,076,098
43					
44	Net Plant in Service (L59 - L 60)		<u>\$ 585,531</u>	-	<u>\$ 585,531</u>
45					
46	<u>LESS:</u>				
47	Contributions in Aid of Construction (CIAC)		\$ -	-	\$ -
48	Less: Accumulated Amortization		-	-	-
49	Net CIAC (L25 - L26)		-	-	-
50	Advances in Aid of Construction (AIAC)		-	-	-
51	Customer Meter Deposits		11,545	-	11,545
52	Deferred Income Tax Credits		-	-	-
53					
54	<u>ADD:</u>				
55	Unamortized Finance Charges		-	-	-
56	Deferred Tax Assets		-	-	-
57	Working Capital		-	-	-
58					
59	Original Cost Rate Base		<u>\$ 573,986</u>	<u>\$ -</u>	<u>\$ 573,986</u>

References:

Column (A), Company Schedules (various)  
Column (B): Schedule CRM-4  
Column (C): Column (A) + Column (B)

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	ADJ. NUMBER	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>						
2	Metered Water Sales	\$ 227,919	\$ -		\$ 227,919	\$ 45,090	\$ 273,009
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	2,793	(793)	1	2,000	-	2,000
5	Total Operating Revenues	\$ 230,712	\$ (793)		\$ 229,919	\$ 45,090	\$ 275,009
6	<u>OPERATING EXPENSES:</u>						
6	Salaries and Wages	\$ 107,578	\$ -		\$ 107,578	\$ -	\$ 107,578
7	Purchased Water	-	-		-	-	-
8	Purchased Power	9,058	-		9,058	-	9,058
9	Chemicals	-	-		-	-	-
10	Repairs and Maintenance	12,097	(678)	2	11,419	-	11,419
11	Office Supplies and Expense	16,172	-	3	16,172	-	16,172
12	Outside Services	4,773	-		4,773	-	4,773
13	Water Testing	4,290	(287)	4	4,003	-	4,003
14	Rents	1,400	-		1,400	-	1,400
15	Transportation Expenses	2,499	-		2,499	-	2,499
16	Insurance - General Liability	12,774	-		12,774	-	12,774
17	Insurance - Health and Life	-	-		-	-	-
18	Regulatory Commission Expense - Rate Case	-	-		-	-	-
19	Miscellaneous Expense	372	-		372	-	372
20	Depreciation Expense	33,669	-	5	33,669	-	33,669
21	Taxes Other Than Income	-	-		-	-	-
22	Property Taxes	14,139	(2,281)	6	11,858	(1,910)	9,948
23	Income Tax	-	-		-	-	-
26							
27	Total Operating Expenses	\$ 218,821	\$ (3,246)		\$ 215,575	\$ (1,910)	\$ 213,665
28	Operating Income (Loss)	\$ 11,891	\$ 2,453		\$ 14,344	\$ 47,000	\$ 61,344

References:

Column (A): Company Schedule C-1  
Column (B): Schedule CRM-6  
Column (C): Column (A) + Column (B)  
Column (D): Schedules CRM-1  
Column (E): Column (C) + Column (D)

Yanell Water Improvement Assn.  
Docket No. W-02265A-07-0570  
Test Year Ended December 31, 2006

## SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) OTHER WATER REVENUES ADJ # 1	(C) OFFICE SUPPLIES ADJ # 2	(D) WATER TESTING ADJ # 3	(E) REPAIRS AND MAINT. ADJ # 4	(F) DEPRECIATION ADJ # 5	(G) PROPERTY TAX ADJ # 6	(H) STAFF ADJUSTED
1	REVENUES:								
2	Metered Water Sales	\$ 227,919	-	-	-	-	-	-	227,919
3	Water Sales - Unmetered	-	-	-	-	-	-	-	-
4	Other Operating Revenue	2,793	(793)	-	-	-	-	-	2,000
5	Total Operating Revenues	\$ 230,712	(793)	-	-	-	-	-	229,919
6	OPERATING EXPENSES:								
7	Salaries and Wages	\$ 107,578	-	-	-	-	-	-	-
8	Purchased Water	-	-	-	-	-	-	-	107,578
9	Purchased Power	9,058	-	-	-	-	-	-	9,058
10	Chemicals	-	-	-	-	-	-	-	-
11	Repairs and Maintenance	12,097	-	-	-	(678)	-	-	11,419
12	Office Supplies and Expense	16,172	-	(152)	-	-	-	-	16,020
13	Outside Services	4,773	-	-	-	-	-	-	4,773
14	Water Testing	4,290	-	-	(287)	-	-	-	4,003
15	Rents	1,400	-	-	-	-	-	-	1,400
16	Transportation Expenses	2,499	-	-	-	-	-	-	2,499
17	Insurance - General Liability	12,774	-	-	-	-	-	-	12,774
18	Insurance - Health and Life	-	-	-	-	-	-	-	-
19	Regulatory Commission Expense - Rate Case	372	-	-	-	-	-	-	372
20	Miscellaneous Expense	33,669	-	-	-	-	-	-	35,393
21	Depreciation Expense	-	-	-	-	-	1,724	-	-
22	Taxes Other Than Income	-	-	-	-	-	-	(2,281)	-
23	Property Taxes	14,139	-	-	-	-	-	-	11,858
24	Income Tax	-	-	-	-	-	-	-	-
25	Total Operating Expenses	218,821	-	(152)	(287)	(678)	1,724	(2,281)	217,147
26	Operating Income (Loss)	11,892	(793)	152	287	678	(1,724)	2,281	12,772

ADJ #	Reference:
1	Schedule CRM-7
2	Schedule CRM-11
3	Schedule CRM-9
4	Schedule CRM-10
5	Schedule CRM-8
6	Schedule CRM-12



Yarnell Water Improvement Association  
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Schedule CRM-8

**OPERATING INCOME ADJUSTMENT # 1 - OTHER WATER REVENUES**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Other Water Revenue	\$	2,793	\$	(793)	\$	2,000
2	Company's test year	\$	2,793				
3	Staff's recommended		2,000				
4	Decrease	\$	793				

References:

Column A: Company Schedule C-1  
Column B: Staff Report CRM  
Column C: Column [A] + Column [B]

Yarnell Water Improvement Association  
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Schedule CRM-9

OPERATING INCOME ADJUSTMENT NO. 2 - OFFICE SUPPLIES EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Office Supplies Expense	\$ 16,172	\$ (152)	\$ 16,020
2	<u>Staff's Calculation of Office Supplies Expense</u>			
3	Staff recommended Office Supplies Expense	\$ 16,020		
4	Company test year Office Supplies Expense	16,172		
5	Decrease in Office Supplies Expense	<u>\$ (152)</u>		

References:

Column A: Company Schedule C-1  
Column B: Staff Report CRM  
Column C: Column [A] + Column [B]

Yarnell Water Improvement Association  
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Schedule CRM-10

**OPERATING INCOME ADJUSTMENT # 3 - WATER TESTING EXPENSE**

LINE NO.	DESCRIPTION			
		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing Expense	\$ 4,290	\$ 287	\$ 4,003
2	<u>Staff's calculation of Water Testing Expense</u>			
3	Staff recommended Water Testing expense	\$ 4,003		
4	Company test year Water Testing expense	4,290		
5	Decrease in Water Testing expense going forward	<u>\$ (287)</u>		

References:

Column A: Company Schedule C-1

Column B: Staff Report CRM

Column C: Column [A] + Column [B]

Yarnell Water Improvement Association  
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Schedule CRM-11

OPERATING INCOME ADJUSTMENT # 4 - REPAIRS AND MAINTENANCE EXPENSE

LINE NO.	DESCRIPTION			
		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Miscellaneous expense	\$ 12,097	\$ (678)	\$ 12,775
2	<u>Staff's Calculation of Repairs and Maint.</u>			
3	Staff recommended Repairs and Maint. Expense	\$ 11,419		
4	Company test year Repairs and Maint. Expense	12,097		
5	Decrease in Repairs and Maint Expense	\$ (678)		

References:

Column A: Company Schedule C-1  
Column B: Staff Report CRM  
Column C: Column [A] + Column [B]

Yarnell Water Improvement Association  
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Schedule CRM-12

**OPERATING INCOME ADJUSTMENT # 5 - DEPRECIATION EXPENSE**

LINE NO.	DESCRIPTION	[A]			[B]		[C]	
		COMPANY AS FILED			STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Depreciation Expense	\$	33,669		\$	1,724	\$	35,393
2	<u>Staff's calculation of Depreciation Expense</u>							
3	Staff recommended depreciation expense	\$	35,393					
	Company test year depreciation expense		33,669					
4	Increase in depreciation expense going forward	\$	1,724					

References:

Column A: Company Schedule C-1  
Column B: Staff Report CRM  
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT # 6 -TEST YEAR PROPERTY TAXES ADJUSTMENT**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
		\$ 14,139	\$ (2,281)	\$ 11,858

1 Test Year Property Taxes

2 Staff's Calculation of Test Year Property Taxes

3 Staff recommended Test Year Property Taxes \$ 11,858

4 Company Test Year Property Taxes 14,139

5 Decrease in Test Year Property Taxes \$ (2,281)

References

Company Schedule C-1

Column (B): Staff Report CRM

Col. [C]: Col. [A] - Col. [B]

Yarnell Water Improvement Assn.  
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Test Year Ended December 31, 2006

Schedule CRM-14

**LOAN SCHEDULE**

	<u>Loan # 1</u>	<u>Loan # 2</u>	<u>Loan #3</u>	<u>Total</u>
Date Issued	6/25/1974	4/25/1974	5/12/2006	
Source of Loan	USDA-FHA	USDA-FRA	Ford Credit	
Reason for Loan	Utility Plant	Hydrants	2006 Ford pick-up Truck	
Dollar amount Issue	\$ 769,000	\$ 100,000	\$ 19,827	
Net Proceeds	n/a	n/a	n/a	
Amount Outstanding	270,691	35,051	\$18,059	
Date of Maturity	6/25/2014	4/25/2015	5/26/2011	
Interest Rate	5%	5%	10.002%	
Current Year Interest	14,787	1,921	2,383	\$ 19,091
Current Year Principal	30,799	4,063	3,537	\$ 38,399
Total	<u>\$ 45,586</u>	<u>\$ 5,984</u>	<u>\$ 5,920</u>	<u>\$ 57,490</u>
Authority Granted by			not authorized by ACC at	
ACC Decision No.	44157	44990	time of purchase	

**References**

Company Schedule Page 13  
Schedule CRM-5  
Column (B): Staff Report CRM  
Col. [C]: Col. [A] - Col. [B]

Yarnell Water Improvement Association  
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Schedule CRM-15

Line No.	<u>TIER AND DSC SCHEDULE</u>		
1	Operating Income	\$	59,772
2	Depreciation & Amort.	\$	35,393
3	Income Tax Expense		0
4			
5	Interest Expense	\$	19,091
6	Repayment of Principal	\$	38,399
7			
8			
9	TIER		
10	[1+3] + [5]		3.13
11	DSC		
12	[1+2+3] + [5+6]		<u>1.66</u>

References

Column (B): Staff Report CRM  
Col. [C]: Col. [A] - Col. [B]



OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Property Taxes	\$ 13,026	\$ (1,910)	\$ 11,116
<u>Staff's Calculation of Property Taxes to Reflect Recommended Revenues:</u>				
2	Staff Adjusted Test Year Revenues - 2006			\$ 229,919
3	Weight Factor			2
4	Subtotal (Line 1 * Line 2)			459,838
5	Staff Recommended Revenue, Per Schedule JMM-1			275,009
6	Subtotal (Line 4 + Line 5)			734,847
7	Number of Years			3
8	Three Year Average (Line 5 / Line 6)			244,949
9	Department of Revenue Multiplier			2
10	Revenue Base Value (Line 7 * Line 8)			489,898
11	Plus: 10% of CWIP			-
12	Less: Net Book Value of Licensed Vehicles			19,333
13	Full Cash Value (Line 9 + Line 10 - Line 11)			470,565
14	Assessment Ratio			23.50%
15	Assessment Value (Line 12 * Line 13)			110,583
16	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)			8.9963%
17	Staff Proposed Property Tax Expense (Line 14 * Line 15)			\$ 9,948
18	Company Proposed Property Tax			11,858
19	Increase/(Decrease) to Property Tax Expense			\$ (1,910)

References:

Column A: Company Schedule C-1

Column C: Column [A] + Column [B]

# RATE DESIGN

## Monthly Usage Charge

5/8 x 3/4" Meter  
 3/4" Meter  
 1" Meter  
 1 1/2" Meter  
 2" Meter  
 3" Meter  
 4" Meter  
 6" Meter

	Present Rates	Company Proposed Rates	Staff Recommended Rates
	\$ 21.00	\$ 25.00	\$ 23.00
	21.00	25.00	35.00
	35.00	42.00	42.00
	70.00	84.00	84.00
	112.00	134.00	140.00
	210.00	251.00	368.00
	350.00	418.00	575.00
	70.00	836.00	1,150.00
Gallons included in Minimum	0	0	0
<b>Commodity Rates</b>			
<b>All meter sizes</b>			
Per 1,000 gallons in excess of gallons in monthly minimum			
<b>5/8x3/4 Inch Meter</b>			
Tier 1 zero gallon to 5,000 gallons	2.50	3.00	n/a
Tier 2 5,001 gallons to 10,000 gallons	3.50	4.20	n/a
Tier 3 10,001 gallons to 50,000 gallons	4.75	5.70	n/a
Tier 4 All gallons over 50,000 gallons	6.00	7.20	n/a
Tier 1 zero gallon to 3,000 gallons	n/a	n/a	3.60
Tier 2 3,001 gallons to 7,000 gallons	n/a	n/a	4.10
Tier 3 7,001 gallons to 50,000 gallons	n/a	n/a	5.75
Tier 4 All gallons over 50,000 gallons			7.00
<b>3/4 Inch Meter</b>			
Tier 1 zero gallon to 5,000 gallons	2.50	3.00	n/a
Tier 2 5,001 gallons to 10,000 gallons	3.50	4.20	n/a
Tier 3 10,001 gallons to 50,000 gallons	4.75	5.70	n/a
Tier 4 All gallons over 50,000 gallons	6.00	7.20	n/a
Tier 1 zero gallon to 3,000 gallons	n/a	n/a	3.60
Tier 2 3,001 gallons to 7,000 gallons	n/a	n/a	4.10
Tier 3 7,001 gallons to 50,000 gallons	n/a	n/a	5.75
Tier 4 All gallons over 50,000 gallons			7.00
<b>1 Inch meter</b>			
Tier 1 zero gallon to 5,000 gallons	2.50	3.00	n/a
Tier 2 5,001 gallons to 10,000 gallons	3.50	4.20	n/a
Tier 3 10,001 gallons to 50,000 gallons	4.75	5.70	n/a
Tier 4 All gallons over 50,000 gallons	6.00	7.20	n/a
Tier 1 zero gallon to 25,000 gallons	n/a	n/a	4.10
Tier 2 25,001 gallons to 50,000 gallons	n/a	n/a	5.75
Tier 3 all gallons over 50,000 gallons			7.00
<b>1.5 Inch meter</b>			
Tier 1 zero gallon to 5,000 gallons	2.50	3.00	n/a
Tier 2 5,001 gallons to 10,000 gallons	3.50	4.20	n/a
Tier 3 10,001 gallons to 50,000 gallons	4.75	5.70	n/a
Tier 4 All gallons over 50,000 gallons	6.00	7.20	n/a
Tier 1 zero gallon to 25,000 gallons	n/a	n/a	4.10
Tier 2 25,001 gallons to 50,000 gallons	n/a	n/a	5.75
Tier 3 all gallons over 50,000 gallons			7.00
<b>2 Inch meter</b>			
Tier 1 zero gallon to 5,000 gallons	2.50	3.00	n/a
Tier 2 5,001 gallons to 10,000 gallons	3.50	4.20	n/a
Tier 3 10,001 gallons to 50,000 gallons	4.75	5.70	n/a
Tier 4 All gallons over 50,000 gallons	6.00	7.20	n/a
Tier 1 zero gallon to 25,000 gallons	n/a	n/a	4.10
Tier 2 25,001 gallons to 50,000 gallons	n/a	n/a	5.75
Tier 3 all gallons over 50,000 gallons			7.00

**3 Inch meter**

Tier 1 zero gallon to 5,000 gallons  
 Tier 2 5,001 gallons to 10,000 gallons  
 Tier 3 10,001 gallons to 50,000 gallons  
 Tier 4 All gallons over 50,000 gallons

2.50	3.00	n/a
3.50	4.20	n/a
4.75	5.70	n/a
6.00	7.20	n/a

Tier 1 zero gallon to 25,000 gallons  
 Tier 2 25,001 gallons to 50,000 gallons  
 Tier 3 all gallons over 50,000 gallons

n/a	n/a	4.10
n/a	n/a	5.75
		7.00

**4 Inch Meter**

Tier 1 zero gallon to 5,000 gallons  
 Tier 2 5,001 gallons to 10,000 gallons  
 Tier 3 10,001 gallons to 50,000 gallons  
 Tier 4 All gallons over 50,000 gallons

2.50	3.00	n/a
3.50	4.20	n/a
4.75	5.70	n/a
6.00	7.20	n/a

Tier 1 zero gallon to 25,000 gallons  
 Tier 2 25,001 gallons to 50,000 gallons  
 Tier 3 all gallons over 50,000 gallons

n/a	n/a	3.60
n/a	n/a	5.75
		7.00
n/a	n/a	5.75

**6 Inch Meter**

Tier 1 zero gallon to 5,000 gallons  
 Tier 2 5,001 gallons to 10,000 gallons  
 Tier 3 10,001 gallons to 50,000 gallons  
 Tier 4 All gallons over 50,000 gallons

2.50	3.00	n/a
3.50	4.20	n/a
4.75	5.70	n/a
6.00	7.20	n/a

Tier 1 zero gallon to 25,000 gallons  
 Tier 2 25,001 gallons to 50,000 gallons

n/a	n/a	
n/a	n/a	4.10
		5.75
n/a	n/a	7.00

Construction/Bulk, per 1,000 gallons - all gallons.

\$10.00	10.00	10.00
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**Service Line and Meter Installation Charges**

	Present	COMPANY PROPOSED				STAFF RECOMMENDED			
		Service Line Charge	Meter Installation	Total Proposed	Service Line Charge	Meter Installation	Total Recommended		
5/8" x 3/4" Meter	\$ 520.00	n/a	n/a	\$ 546.00	\$ 445.00	\$ 105.00	\$ 550.00		
3/4" Meter	600.00	n/a	n/a	600.00	\$ 445.00	\$ 175.00	\$ 620.00		
1" Meter	690.00	n/a	n/a	725.00	\$ 495.00	\$ 235.00	\$ 730.00		
1½" Meter	935.00	n/a	n/a	982.00	\$ 550.00	\$ 445.00	\$ 995.00		
2" Turbine Meter	1,525.00	n/a	n/a	1,601.00	\$ 830.00	\$ 965.00	\$ 1,795.00		
2" Compound Meter	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
3" Turbine Meter	2,080.00	n/a	n/a	2,184.00	\$ 1,045.00	\$ 1,590.00	\$ 2,635.00		
3" Compound Meter	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
4" Turbine Meter	3,175.00	n/a	n/a	3,334.00	\$ 1,490.00	\$ 2,510.00	\$ 4,000.00		
4" Compound Meter	n/a	n/a	n/a	n/a	n/a	n/a	n/a		
6" Turbine Meter	5,680.00	n/a	n/a	5,964.00	\$ 2,210.00	\$ 4,865.00	\$ 7,075.00		
6" Compound Meter	n/a	n/a	n/a	n/a	n/a	n/a	n/a		

**Service Charges**

	Company Present	Company Proposed	Staff Recommended
Establishment	\$ 40.00	\$ 48.00	\$ 48.00
Reconnection (Delinquent)	40.00	48.00	48.00
After Hours Surcharge	20.00	24.00	24.00
Meter Test	30.00	36.00	36.00
Deposit	70.00	84.00	84.00
Deposit Interest (2)	6.00%	6.00%	6.00%
Re-Establishment (Within 12 Months)	21.00	25.00	**
NSF Check	25.00	30.00	30.00
Deferred Payment	-	-	-
Meter Re-Read	10.00	12.00	12.00
Late Fee	1.50%	1.50%	***
Road Permit Fee	-	100% of fee charged	100% of fee charged

**Fire Sprinklers**

4 inch or Smaller  
6 inch  
8 inch  
10 inch  
Larger than 10 inch

Present	Proposed	Recommended
n/a	n/a	****
n/a	n/a	****
n/a	n/a	****
n/a	n/a	****
n/a	n/a	****

**Company Proposed**

- 1 Per Rule Deposit (R-14-2-403.B)
- 2 Per Rule Deposit Interest (R-14-2-403.B.3)
- 3 Per Rule Reestablishment (14-2-403.D.1)

**Staff Recommended**

- 1 \* Per rule R14-2-403.B
- 2 \*\* Months off system time the minimum (R-14-2-403.D)
- 3 \*\*\* 1.5 percent of the unpaid balance per month.
- 4 \*\*\*\* 100 percent of monthly minimum for a comparable Sized Meter Connection.  
but no less than \$5.00 per month. The Service Charge for Fire Sprinklers  
is only applicable for service lines separate and distinct from the primary  
water service line.

Yarnell Water Improvement Association, Inc.  
Docket No. W-02255A-07-0570  
Test Year Ended December 31, 2006

Schedule CRM-18

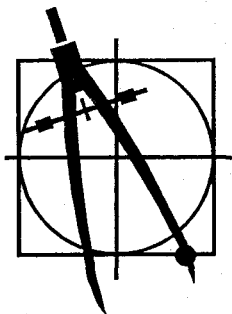
**TYPICAL BILL ANALYSIS**  
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 519

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,447	\$32.12	\$38.34	\$6.22	19.4%
Median Usage	2,338	\$26.85	\$32.01	\$5.16	19.2%
<u>Staff Proposed</u>					
Average Usage	4,447	\$32.12	\$39.73	\$7.61	23.7%
Median Usage	2,338	\$26.85	\$31.42	\$4.57	17.0%

**Present & Proposed Rates (Without Taxes)**  
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$21.00	\$25.00	19.0%	\$23.00	9.5%
1,000	23.50	28.00	19.1%	26.60	13.2%
2,000	26.00	31.00	19.2%	30.20	16.2%
3,000	28.50	34.00	19.3%	33.80	18.6%
4,000	31.00	37.00	19.4%	37.90	22.3%
5,000	33.50	40.00	19.4%	42.00	25.4%
6,000	37.00	44.20	19.5%	46.10	24.6%
7,000	40.50	48.40	19.5%	50.20	24.0%
8,000	44.00	52.60	19.5%	55.95	27.2%
9,000	47.50	56.80	19.6%	61.70	29.9%
10,000	51.00	61.00	19.6%	67.45	32.3%
15,000	74.75	89.50	19.7%	96.20	28.7%
20,000	98.50	118.00	19.8%	124.95	26.9%
25,000	122.25	146.50	19.8%	153.70	25.7%
50,000	241.00	289.00	19.9%	297.45	23.4%
75,000	391.00	469.00	19.9%	441.20	12.8%
100,000	541.00	649.00	20.0%	584.95	8.1%
125,000	691.00	829.00	20.0%	728.70	5.5%
150,000	841.00	1,009.00	20.0%	872.45	3.7%
175,000	991.00	1,189.00	20.0%	1,016.20	2.5%
200,000	1,141.00	1,369.00	20.0%	1,159.95	1.7%



**Engineering Report  
Yarnell Water Improvement  
Association  
By Dorothy Hains, P. E. *DH*  
Docket No. W-02255A-07-0570  
(Rates)**

**June 23, 2008**

**EXECUTIVE SUMMARY**

**Recommendations:**

1. Staff recommends that Yarnell Water Improvement Association ("the Company") use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6, in the future. (See §K and Exhibit 6 for a discussion and a tabulation of the recommended rates.)
2. Staff recommends approval of the meter and service line installation charges listed in the right-hand columns of Table 8. (See §L of report for discussion and details.)
3. Water testing expenses are based upon participation in the Arizona Department of Environmental Quality ("ADEQ") Monitoring Assistance Program. Annual testing expenses should be adjusted to \$4,003. (See §J and Tables 7 for discussion and details.)
4. Staff recommends that the Company continue to reduce its water loss. Staff further recommends that the Company monitor the gallons pumped and gallons sold to determine the actual water loss on an annual basis. The monitoring report should be submitted as a compliance item within 13 months of the effective date of the order issued in this docket. If the reported water loss for the period is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding. (See §E for discussion and details.)
5. The Company's system is gravity fed; therefore, the standby generator installation is advisable, but not urgent. Staff believes that the Company's estimated cost for the generator is reasonable. No "used and useful" determination of the proposed plant in

service was made, and no conclusions should be inferred for rate making or rate base purposes. (See §L of report for discussion and details.)

**Conclusions:**

1. A check of the Compliance Section database indicated that the Company had no delinquencies.
2. The Company is in compliance with ADEQ water quality standards and is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (See §G of report for discussion and details.)
3. Staff believes the Telemetry System Replacement Project is needed and estimated cost is reasonable. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes. (See §L of report for discussion and details.)
4. Staff believes that the fire hydrant replacement is needed and estimated cost is reasonable. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes. (See §L of report for discussion and details.)
5. Yarnell is not located in an Active Management Area ("AMA") and ADWR has determined that Yarnell Water Improvement Association is currently in compliance with departmental requirements governing water providers and/or community water systems. (See §H of report for discussion and details.)

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**ENGINEERING REPORT  
YARNELL WATER IMPROVEMENT ASSOCIATION  
DOCKET NO. W-02255A-07-0570 (RATES)**

**A. PURPOSE OF REPORT**

This report was prepared in response to the application of Yarnell Water Improvement Association ("Yarnell" or "Company") before the Arizona Corporation Commission ("ACC" or "the Commission") for a rate increase. An inspection and evaluation of the Company's water system was conducted by Dorothy Hains, Water Engineer, accompanied by Mr. Stacy Zudell, the Company's Operator, on April 2, 2008.

**B. LOCATION OF SYSTEM**

The Company is located near the Town of Congress, 30 miles southwest of the City of Prescott in Yavapai County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission-regulated companies in Yavapai County and in the immediate area. The Company serves an area approximately five square miles in size that includes a portion of Sections 12, 14 and 15, of Township 10 North, Range 5 West, and Sections 1, 2, 10 and 11 of Township 10 North, Range 5 West.

**C. DESCRIPTION OF SYSTEM**

**I. System Description**

The Company owns and operates a water system that consists of two wells, three storage tanks, seven pressure relief valves and a distribution system. The wells are adjacent to one another and located on the same lot. The Company served approximately 524 metered customers during the test year; the majority of which are residential. Exhibit 3 is a schematic drawing of the water system. A detailed listing of the Company's water system facilities are as follows:

Table 1 Well Data

ADWR No.	Pump (HP)	Yield (GPM)	Casing Size (in inches)	Casing Depth (in ft)	(Meter Size inches)	Year drilled
55-616736	5	230	6"	180' deep	none	1974
55-616737	7	240	4"	30' deep	none	1974
	TOTAL:	470				

Table 2 Storage Tank

Capacity (Gallons)	Quantity	Location
40,000	1	Well site (Parcel #202-4-3/ Sec 24, Township 11 North, Range 5 West in Peebles Valley)
250,000	2	Tank site (Parcel # 203-7-37/ Sec 11, Township 10 North, Range 5 West in Yarnell)
Total: 540,000 gallons		

Table 3 Distribution Mains

Diameter (inches)	Material	Length (feet)
4	polyvinyl chloride ("PVC")	5,680
6	PVC	62,920
8	concrete	18,480

Table 4 Meters

Size (inches)	Quantity
5/8 x 3/4	597
3/4	n/a
1	9
1½	1
2	2
Total	609

## II. System Analysis

The Company currently serves 524 metered customers. Staff concludes that the system has adequate production and storage capacities to provide service to the existing customers.

## E. WATER USAGE

Table 5 summarizes water usage in the Company's CC&N area. Exhibit 4 is a graph that shows water consumption data in gallons per day per connection for the system during the test year.

Table 5 Water Usage

Month	Number of Customers	Water Sold (gallons)	Fire Department usage (gallons)	Water pumped (gallons)	Water purchased (gallons)	Daily Average (gal/day/customer)
Jan 06	525	1,774,100	1,800	2,222,600	0	109
Feb 06	523	1,430,600	40,300	1,769,700	0	98
Mar 06	523	1,729,200	20,400	2,084,100	0	107
Apr 06	527	1,578,400	13,200	1,899,800	0	100
May 06	535	2,609,200	15,300	3,050,600	0	157
Jun 06	529	3,444,200	81,800	4,184,000	0	217
Jul 06	532	2,906,200	25,000	3,599,300	0	176
Aug 06	529	2,398,300	55,600	3,082,000	0	146
Sep 06	531	2,323,500	100,000	2,661,000	0	146
Oct 06	531	1,958,500	350,000	2,521,000	0	119
Nov 06	527	1,952,300	20,600	2,272,000	0	123
Dec 06	524	1,625,000	65,000	1,935,000	0	100
Total		25,729,500	789,000	31,281,100		
Average						133

## I. Water Sold

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 133 gallons per day ("GPD") per customer, a high use of 217 GPD per customer, and a low use of less than 98 GPD per customer. The highest total monthly use occurred in June, when a total of 3,444,200 gallons were sold to 529 customers. The lowest total monthly use occurred in February, when 1,430,600 gallons were sold to 523 customers.

## II. Non-account Water

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between the water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

The Company reported 25,729,500 gallons of water sold, 789,000 gallons water used by the local fire department (at no charge), and 31,281,100 gallons pumped during the test year. The calculated water loss in Yarnell system was 15%, which exceeds Staff's recommended 10% allowable limit.

Starting in early 2006, the Company began to replace service meters and fire hydrants<sup>1</sup>. Although the Company has not submitted its water loss reduction plan to the Commission, it appears that the Company's meter and fire hydrant ("FH") replacement has been helpful in reducing water loss. The water loss has been reduced from approximately 22.8% (in 2005) to the 15% level (in test year)<sup>2</sup>. Staff recommends that the Company continues to reduce its water loss. Staff further recommends that the Company monitor the gallons pumped and gallons sold to determine the actual water loss on an annual basis. The monitoring report should be docketed as a compliance item within 13 months of the effective date of the order issued in this docket. If the reported water loss for the period is still greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

#### F. GROWTH PROJECTION

Although the Company states there is almost no growth in its service area, the growth data indicates that Yarnell is growing but at a slow pace. Based on the service meter data contained in the Company's annual reports, the number of customers increased from 517 at the end of 1999 to 528 by the end of 2006, which results in an average growth rate of 2 customers per year for the period. Based on the linear regression analysis, the Company could serve approximately 534 customers by the end of 2012. The following table summarizes both actual and projected growth in the Company's existing certificated service area.

Table 6 Actual and Projected Growth

year	Nos. of Customers	
1999	517	Reported
200	510	Reported
2001	525	Reported
2002	508	Reported
2003	519	Reported
2004	521	Reported
2005	528	Reported
2006	528	Reported
2007	524	Estimated
2008	526	Estimated
2009	528	Estimated
2010	530	Estimated
2011	532	Estimated
2012	534	Estimated

1 Starting in January 2006 ending in February 2008, the Company had replaced 113 meters and 7 fire hydrants.

2 The 22.8% level was determined in connection with the Company's last rate application (see Decision No. 68747).

**G. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE**

Staff received a compliance status report from ADEQ dated August 6, 2007, in which ADEQ stated that the system (ADEQ Public Water System Identification #13-057) has no major deficiencies. ADEQ has determined that the system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

**H. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

Yarnell is not located in an Active Management Area ("AMA") as designated by ADWR, and consequently is not subject to AMA reporting and conservation rules. Staff received a compliance status report from ADWR dated June 11, 2008, in which ADWR has determined that Yarnell Water Improvement Association is currently in compliance with departmental requirements governing water providers and/or community water systems.

**I. ACC COMPLIANCE**

A check of the Compliance Section database indicated that Yarnell has no delinquencies (Per ACC database compliance check dated April 14, 2008).

**J. WATER TESTING EXPENSES**

Yarnell is subject to mandatory participation in the ADEQ Monitoring Assistance Program ("MAP"). Staff calculated the testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented as a pro forma expense on an annualized basis.
3. MAP fees were calculated from the ADEQ MAP rules.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry.
5. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents were found, then the testing costs would dramatically increase.

Table 7 shows the estimated annual monitoring expense, assuming participation in the MAP program. Water testing expenses should be adjusted to the annual expense amount of \$4,003 shown in Table 7.

Table 7 Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests per test year	Annual Cost
Total coliform – monthly	\$65	24	\$1,560
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	\$55	MAP	MAP
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
IOCs, SOCs, & VOCs	MAP	MAP	MAP
Lead & Copper – per 3 years	\$45	10/3	\$150
D/DBP:			
TTHM– per 3 years	\$90	1/3	\$30
HAA5 – per 3 years	\$230	1/3	\$76.67
- Sampling & shipping samples	50	1/3	16.67
Maximum Residual Disinfection Level (“MRDL”)	\$15	24	\$360
MAP Fee		422.19	\$1,809.99
Total			\$4,003

#### K. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within the range of anticipated equipment life. These rates are presented in Exhibit 6, and should be used to calculate the annual depreciation expense for the Company in this application. It is recommended that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners (“NARUC”) category, as delineated in Exhibit 6, in the future.

**L. OTHER ISSUES**

**I. Service Line and Meter Installation Charges**

Staff recommends approval of separate meter and service line installation charges as shown under the Staff Recommended columns in Table 8. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff's recommended charges listed in the table below should be adopted. Staff contacted the Company regarding this recommendation and the Company was receptive to Staff's proposal. The Company agrees with Staff's recommended service line and meter installation charges and total charges.

**Table 8 Service Line and Meter Installation Charges**

Meter Size	Company Current Total Charges	Company Proposed Total Charges	Staff Recommended Service Line Charges	Staff Recommended Meter Charges	Staff Recommended Total Charges
5/8 x3/4-inch	\$520	\$546	\$445	\$105	\$550
3/4-inch	\$600	\$600	\$445	\$175	\$620
1-inch	\$690	\$725	\$495	\$235	\$730
1-1/2-inch	\$935	\$982	\$550	\$445	\$995
2-inch (turbo)	\$1,525	\$1,601	\$830	\$965	\$1,795
2-inch (compound)	N/A	N/A	N/A	N/A	N/A
3-inch (turbo)	\$2,080	\$2,184	\$1,045	\$1,590	\$2,635
3-inch (compound)	N/A	N/A	N/A	N/A	N/A
4-inch (turbo)	\$3,175	\$3,334	\$1,490	\$2,510	\$4,000
4-inch (compound)	N/A	N/A	N/A	N/A	N/A
5-inch	N/A	N/A	N/A	N/A	N/A
6" (turbo)	\$5,680	\$5,964	\$2,210	\$4,865	\$7,075
6-inch (compound)	N/A	N/A	N/A	N/A	N/A

## **II. Curtailment Tariff**

Since July 6, 2004, the Company has had an approved curtailment tariff on file with the Commission.

## **III. Cross Connection or Backflow Tariff**

The Company has an approved backflow prevention tariff on file with the Commission.

## **IV. Engineering Comments Regarding the Company's Proposed Post Test Year Adjustments**

### **(1) Telemetry System Replacement**

The existing Telemetry System is outdated technology and spare parts are manufacturer discontinued according to the Company. The Company is planning to replace the existing telemetry system. The Company estimates that the cost of upgrading the existing telemetry system is \$69,740. (This estimate includes \$57,120 for materials and \$12,620 for labor). Staff believes the Telemetry System Replacement Project is needed and the estimated cost is reasonable. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.

### **(2) Fire Hydrant ("FH") Replacement**

The Company plans to replace a total of seventy (70) aged FH (as part of the Company's water loss reduction program). The Company proposes to replace six FH per year and the estimated cost is approximately \$1,463.73 per FH. It appears the replacement of service meters and FHs has reduced the Company's level of non-account water. Staff recommends that the Company continue its FH replacement program.

### **(3) On-Site Generator**

According to the Company, ADEQ has recommended that the Company install an on-site emergency generator. The Company proposes to install a 100 KW standby generator at an estimated cost of \$23,881<sup>3</sup>. According to the Company, there were six power outages in the Yarnell area during 2007. Because Yarnell's system is gravity fed, Staff believes the standby generator installation is advisable but not urgent. Therefore, Staff recommends that the Company install an on-site generator when it is economical for the Company to do so. Staff also believes that the generator's estimated cost is reasonable. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.

---

<sup>3</sup> The installation cost of a 10 KW generator is \$16,995 that includes material and installation. To install a 200 amp, 3-phase, 4 wire transfer switch will cost \$6,886.



EXHIBIT 1

Yarnell Certificate Service Area

**COUNTY:** *Yavapai*

**RANGE** 5 West

6	5	4	3	* * * * *	
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

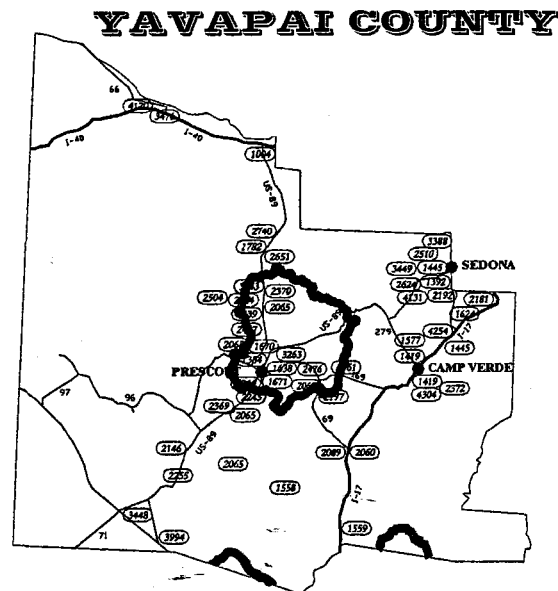
**TOWNSHIP** 10 North



W-2255 (2)  
Yarnell Water Improvement A

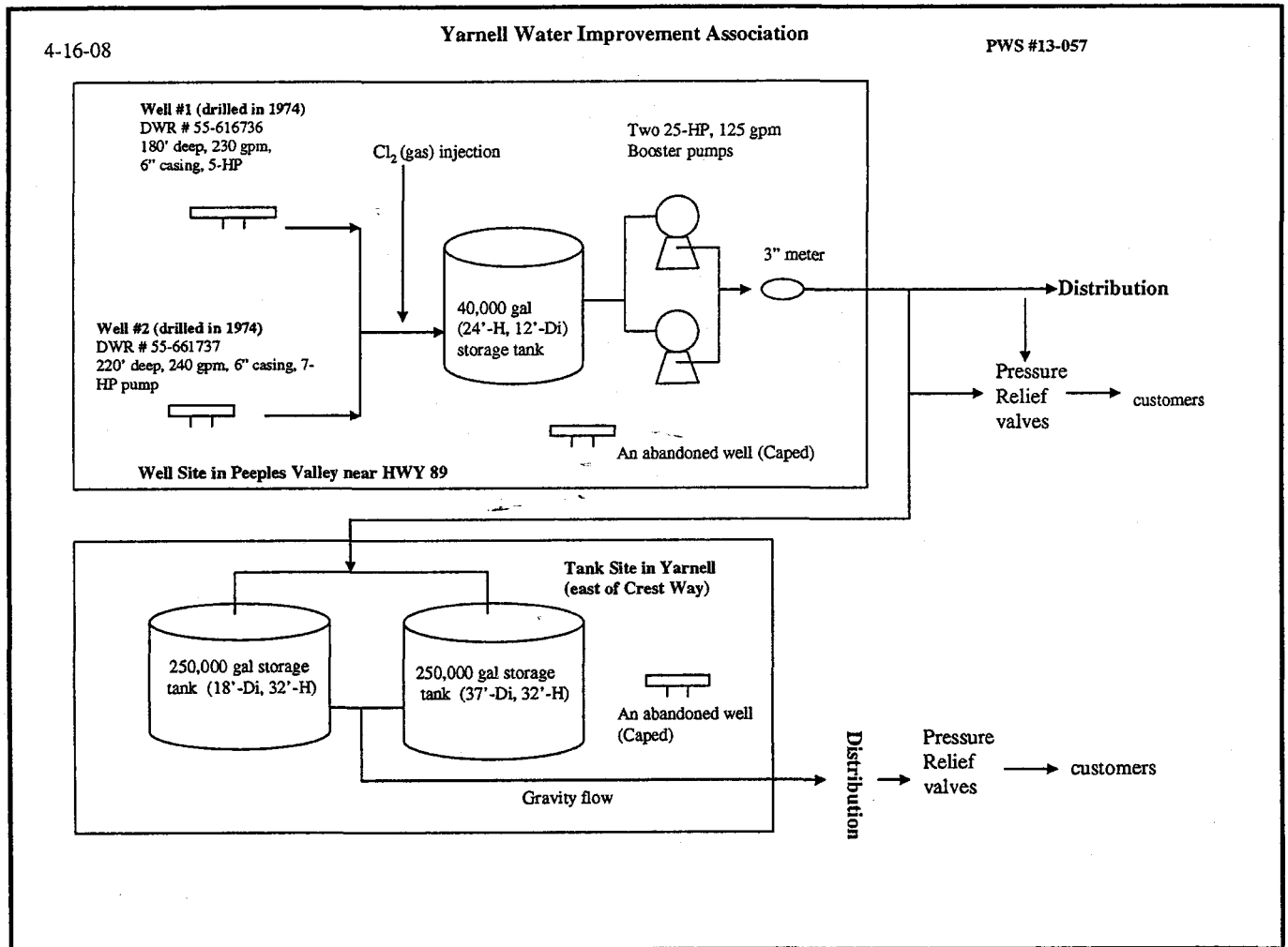
EXHIBIT 2.

LOCATION OF YARNELL SERVICE AREA



1782	ABRA WATER COMPANY, INC.	1638	HOLIDAY HILLS WATER COMPANY
2740	ANTELOPE LAKES WATER COMPANY	2197	HUMBOLDT WATER SYSTEM, INC.
3443	APPALOOSA WATER COMPANY	2824	ICR WATER USERS ASSOCIATION
1445	ARIZONA WATER COMPANY	2624	MICHAELS RANCH WATER USERS' ASSOCIATION
1004	ASHFORK DEVELOPMENT ASSOCIATION, INC.	2651	JUNIPER WELLS WATER COMPANY
3476	BN LEASING CORPORATION	1557	LAKE VERDE WATER COMPANY
1624	BIG PARK WATER COMPANY	2192	LITTLE PARK WATER COMPANY, INC.
2510	BOYNTON CANYON ENCHANTMENT HOMEOWNERS ASSOC.	2245	LOMA ESTATES WATER COMPANY, LLC
2089	BRADSHAW MOUNTAIN VIEW WATER COMPANY	2504	MEADOW WATER COMPANY
2476	BRADSHAW WATER COMPANY, INC.	4254	MONTEZUMA RIMROCK WATER COMPANY, LLC
1419	CAMP VERDE WATER SYSTEM	4304	OAK CREEK PUBLIC SERVICE, LLC
3994	CDC WICKENBURG WATER, LLC	1392	OAK CREEK WATER COMPANY NO. 1
2370	CHINO MEADOWS II WATER COMPANY, INC.	2146	PEEPLER VALLEY WATER COMPANY
1559	COLDWATER CANYON WATER COMPANY	2181	PINE VALLEY WATER COMPANY
2060	CORDES LAKES WATER COMPANY	3448	RAINBOW PARKS, INC.
4131	CROSS CREEK RANCH WATER COMPANY	3449	SEDONA VENTURE (MHC OPERATING LTD PARTNERSHIP)
1558	CROWN KING WATER COMPANY, INC.	3388	SEVEN CANYONS WATER COMPANY
1384	DELL'S WATER COMPANY, INC.	1671	SHERMAN PINES WATER COMPANY
3263	DIAMOND VALLEY WATER USERS ASSOCIATION	2372	VERDE LAKES WATER CORPORATION
4120	GRAND CANYON CAVERNS AND INN, LLC	2369	WALDEN MEADOWS COMMUNITY COOPERATIVE
1670	GRANITE DELLS WATER COMPANY	4161	WHITE HORSE RANCH OWNERS ASSOCIATION, INC.
2467	GRANITE MOUNTAIN WATER COMPANY, INC.	2065	WILHOIT WATER COMPANY, INC.
2539	GRANITE OAKS WATER USERS ASSOCIATION	2255	YARNELL WATER IMPROVEMENT ASSOCIATION
1865	GROOM CREEK WATER USERS ASSOCIATION		

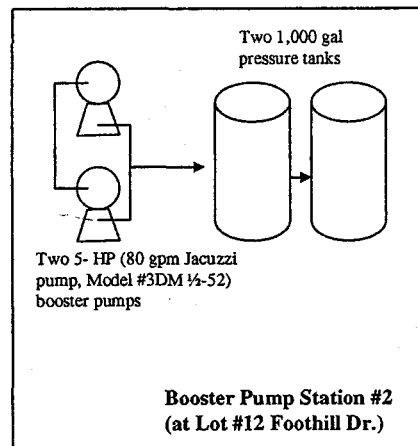
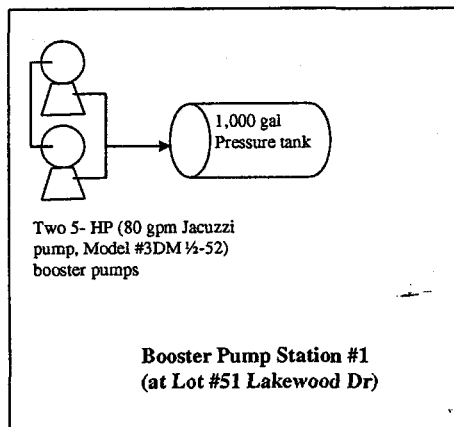
**EXHIBIT 3A**  
**SYSTEMATIC DRAWING**



**EXHIBIT 3B**  
**SYSTEMATIC DRAWING**

4-16-08

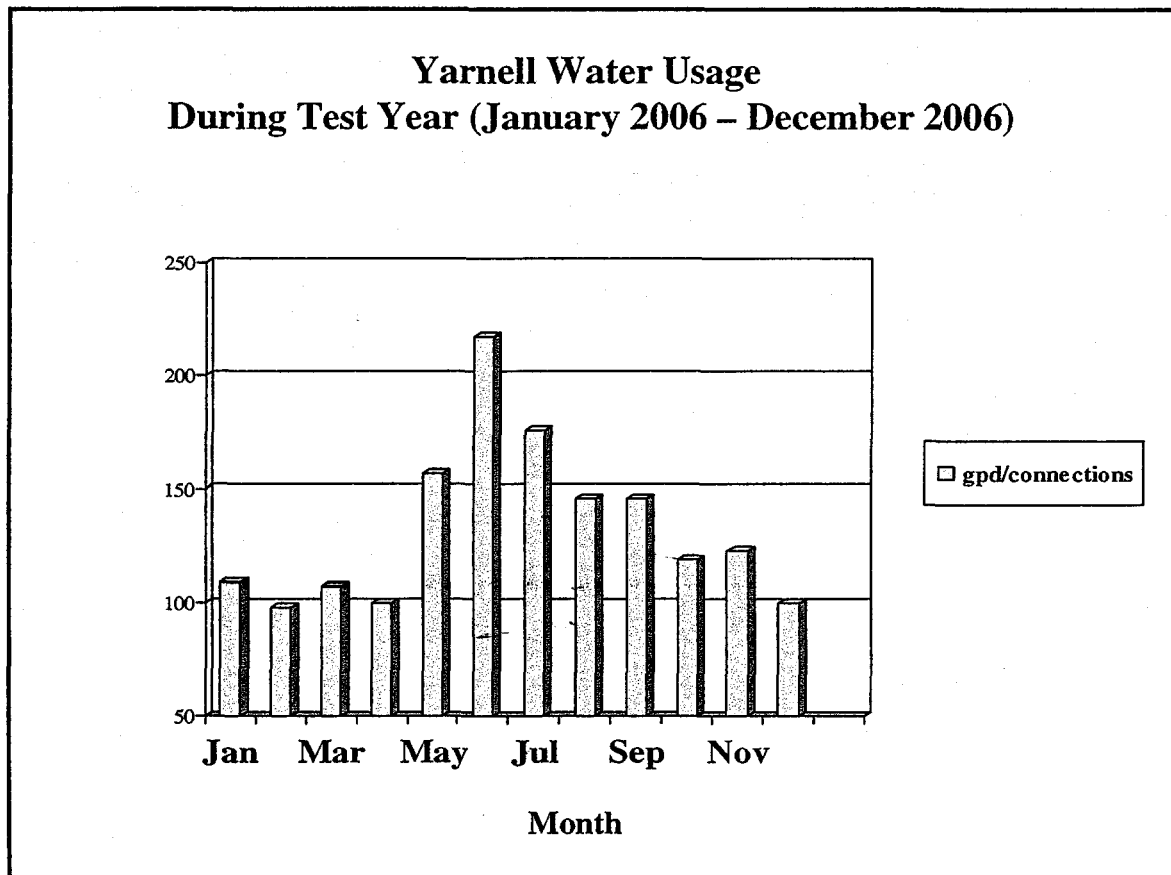
Plants are not used and useful



Yarnell Water Improvement Co. (PWS #13-057)

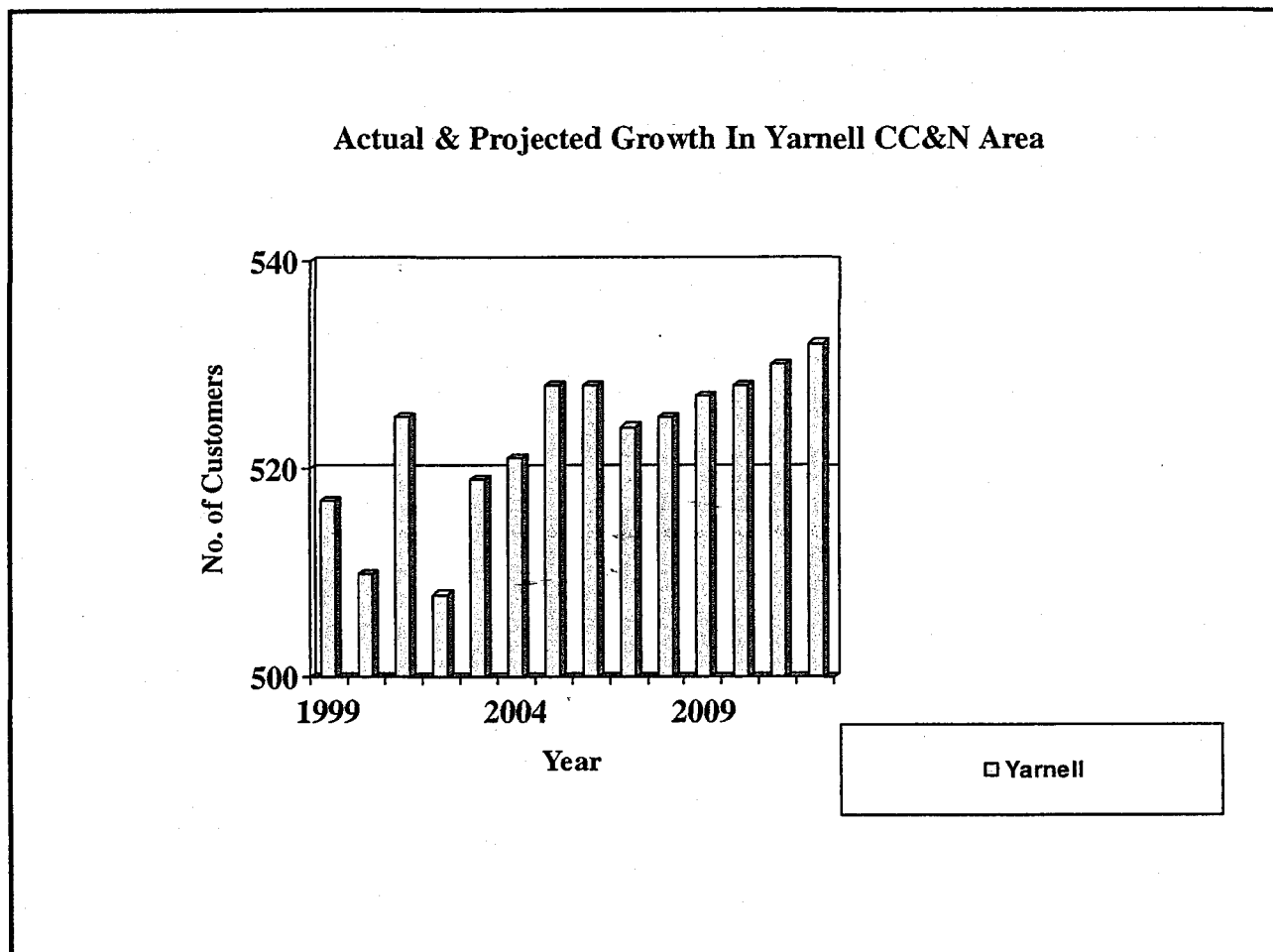
**EXHIBIT 4**

**WATER USAGE ON THE YARNELL SERVICE AREA**



**EXHIBIT 5**

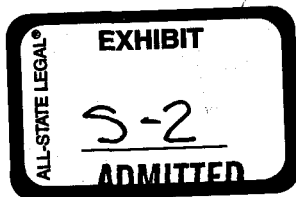
**ACTUAL AND PROJECTED GROWTH IN YARNELL SERVICE AREA**



### Exhibit 6

#### Water Depreciation Rates

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----



MEMORANDUM

LEGAL

RECEIVED

TO: Docket Control  
FROM: Ernest G. Johnson  
Director  
Utilities Division

2008 AUG 26 P 3:00

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: August 26, 2008

RE: ADDENDUM TO STAFF REPORT FOR YARNELL WATER IMPROVEMENT ASSOCIATION FOR A PERMANENT RATE INCREASE AND FINANCING (DOCKET NO. W-0-2255A-07-0570 AND DOCKET NO. W-02255A-08-0355)

On October 5, 2007, Yarnell Water Improvement Association ("Company") filed an application with the Arizona Corporation Commission requesting a permanent rate increase. On June 23, 2008, Staff filed its Staff Report pertaining to this filing.

Subsequent to Staff's filing of its Staff Report, the Hearing Division issued a procedural order dated July 7, 2008, requiring the Company to file a financing application. The time clock was suspended. In 2006, the Company purchased a new Ford truck on long-term financing with Ford Credit Company without Commission approval for long-term financing. The Company filed a financing application on July 14, 2008, seeking retroactive Commission approval of this financing. The instant financing application is for the new Ford truck purchased in 2006. The rate case application and the financing application were consolidated by procedural order dated August 14, 2008.

Staff reviewed the financing application. The financing application amount of \$19,827 is the same amount that Staff recommended in its filed Staff Report to be retroactively approved. Staff's Report was docketed on June 23, 2008.

Staff recommends that the financing for the new Ford truck be approved retroactively. The Staff-recommended debt service coverage of 1.66 in its Staff Report, produces sufficient revenue to service the Company's debt and for contingencies. See Schedule CRM-15. Staff's recommended rates already include sufficient revenue to service the debt.

EGJ:CRM:kdh

Originator: Charles R. Myhlhousen

Attachment: Engineering Memorandum  
Original and fifteen copies

RECEIVED

AUG 26 2008

LEGAL DIV.  
ARIZ. CORPORATION COMMISSION

FILE COPY



Service List for: Yarnell Water Improvement Association Inc.  
Docket Nos. W-02255A-07-0570 and W-02255A-08-0355

Ms. Tammy Zudell  
Yarnell Water Improvement Association  
Post Office Box 727  
Yarnell, Arizona 85362

Ms. Janice M. Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Lyn Farmer  
Chief, Hearing Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Yarnell Water Improvement Association  
Docket No. W-02255A-07-0570  
Test Year Ended December 31, 2006

Schedule CRM-15

Line No.	<u>TIER AND DSC</u> <u>SCHEDULE</u>	
1	Operating Income	\$ 59,772
2	Depreciation & Amort.	\$ 35,393
3	Income Tax Expense	0
4		
5	Interest Expense	\$ 19,091
6	Repayment of Principal	\$ 38,399
7		
8		
9	TIER	
10	[1+3] ÷ [5]	3.13
11	DSC	
12	[1+2+3] ÷ [5+6]	1.66

## MEMORANDUM

**DATE** August 18, 2008

**TO:** Charles Myhlhousen  
Public Utility Analyst III

**FROM:** Dorothy Hains, P. E. DH  
Utilities Engineer

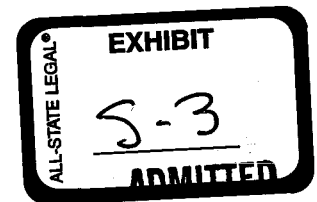
**RE:** **Financing Application for Yarnell Water Company, Inc.**  
**Docket No. W-02255A-08-0355**

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On July 7, 2008, by Procedural Order, Yarnell Water Company ("the Company") was ordered to file an application for approval of a financing for the purchase of a pick-up truck. Staff was ordered to file a separate Staff Report on the financing application, thereafter. On July 14, 2008, the Company filed a financing application requesting Commission approval of long term financing in the amount of \$19,827.46 for the purchase of a Ford pick-up truck.

According to information contained in the application the Ford truck was needed to replace a small 1990 Toyota pick-up truck that was no longer running. According to the Company, repairs to the Toyota truck would have cost more than what the truck was worth. In May 2006, the Company purchased a heavy duty Ford truck to replace the Toyota truck. Staff observed during its site inspection that the Ford truck was being used for Company purposes and that it was being used to haul Company tools and equipment in very rough conditions while the Company conducted water meter reading, replaced pipelines, meters, and valves and other performed field work.

Staff concludes that the purchase of the Ford truck was appropriate and the purchase amount reasonable.



**EXECUTIVE SUMMARY**  
**YARNELL WATER IMPROVEMENT ASSOCIATION, INC.**  
**DOCKET NO. W-02255A-07-0570**

Yarnell Water Improvement Association, Inc. ("Company") is located approximately 30 miles southwest of Prescott, Arizona on Highway 89. The Company is engaged in the business of providing water utility service exclusively to Arizona customers in Yavapai County. The Company provides service to approximately 531 customers. The Company's current rates were effective July 1, 2006. These rates are the same rates that were effective in the Company's previous rate case Decision No. 68747 dated June 6, 2006.

The Company's rate application requested an increase in revenue of \$44,788 or a 19.41 percent increase over test year revenue of \$230,712. The Company's proposed revenues of \$275,500 result in an operating income of \$44,788, for an operating margin of 16.26 percent. The Company's requested rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$32.01, for an increase of \$5.16 or 19.2 percent.

Staff is recommending an increase over test year revenue of \$45,090 or a <sup>19.61</sup>~~19.54~~ percent increase over <sup>Adjusted</sup> test year revenue of <sup>234,802</sup>~~230,712~~. Staff's recommended revenues of \$275,009, result in an operating income of <sup>61,344</sup>~~59,772~~, for an operating margin of <sup>22.31</sup>~~21.73~~ percent. Staff's recommended rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$31.42, for an increase of \$4.57 or 17.0 percent.

Staff's recommendation will allow the Company sufficient revenue to make the principal and interest payments on approved loans. Staff is recommending approval of a previously executed financing for a vehicle.

Staff's recommended rates and charges would provide an operating income of <sup>61,344</sup>~~59,772~~ for an operating margin of <sup>22.31</sup>~~21.73~~. The operating margin is abnormally high in this instance, because the operating margin is driven by the debt service coverage ("DSC") to give the Company sufficient cash to service its debt and for contingencies.

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule CRM-16. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D-5).
- The Company shall docket with the Commission, a schedule of its approved rates and charges within 30 days after a Decision in this matter is issued.
- The Company shall use depreciation rates delineated in Exhibit 6 of the Engineering Report on a going-forward basis.

**Customers:**

Average number of customers in prior test year 521, current test year 531.

**Notification:**

Customer Notification was mailed originally on September 28, 2007 and was corrected, and resent on November 27, 2007.

**Complaints:**

A review of Consumer Service records reveals that there were no complaints from January 1, 2005, through May 31, 2008.

**Summary of Filing**

Based on test year results, as adjusted by Arizona Corporation Commission ("Commission") Utilities Division Staff ("Staff"), Yarnell Water Improvement Association, Inc. ("Company") realized an operating income of \$12,772, for a 5.55 percent operating margin as shown on Schedule CRM-1.

The Company proposed rates produce operating revenue of \$275,500 and an operating income of \$44,778, for an operating margin of 16.26 percent. The Company's proposed rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$32.01, for an increase of \$5.16 or 19.2 percent.

Staff's recommended rates produce operating revenue of \$275,009 and an operating income of ~~\$59,772~~<sup>61,344</sup>, for an operating margin of ~~21.73~~<sup>22.31</sup> percent. Staff's recommended rates would increase the typical residential bill with a median usage of 2,338 gallons from \$26.85 to \$31.42, for an increase of \$4.57 or 17.0 percent.

The Company is a class C utility.

**Company Background**

The Company received its Certificate of Convenience and Necessity ("CC&N") in Decision No. 44085, dated April 22, 1974. The Company's prior rate application utilized a test year ending December 31, 2004.

On October 5, 2007, the Company filed an application for a permanent rate increase with the Commission. On November 5, 2007, the Company filing was found deficient. On December 3, 2007, December 7, 2007, January 18, 2008, and February 25, 2008, the Company submitted the deficient items. On March 3, 2008, the application was deemed sufficient. The Company's current test year ends December 31, 2006.

of five-years on a total amount of \$19,827. The Company did not seek or get approval for this long-term financing from the Commission. The Company had a 1990 Toyota pick-up truck which was involved in an accident. Staff recommends approval of this long-term financing retroactive from May 12, 2006, when the new pick-up was purchased and will recommended sufficient revenue to service this loan. Staff recommends that the Company obtain the Commission's approval for any long-term financing prior to its execution in the future.

The Company has two other loans which were approved by the Commission. The loans are with the United States Department of Agriculture-Farmers Home Administration ("USDA-FHA"), acquired June 25, 1974, and April 25, 1975. The unpaid balances of these loans are \$270,691 and \$18,059, respectively. The dates of maturity on these loans are June 25, 2014, and April 25, 2015. See Schedule CRM-14. Staff recommends sufficient revenue to service these loans. Staff's recommended revenue requirement is driven by debt service coverage ("DSC") of 1.66, which will give the Company sufficient revenue to service its debt and for contingencies. See Schedule CRM-15.

#### **Operating Revenue:**

Staff made an adjustment to other water revenue, decreasing it by \$793 from \$2,793 to \$2,000. The Company does not expect any additional growth and other water revenue has decreased considerably in the one and one-half years after the test year. Staff reviewed the amount of other water revenues collected thus far in the year 2008. The amount collected from January 2008 through May 2008, is less than \$1,000. Based on this information Staff adjusted the other water revenues to reflect this finding. Staff recommends adjusting other water revenue to a level that more clearly reflects the correct amount expected to be received on a going-forward basis. The Company's bill count revenue matched the revenue shown in the application and that reflects the test year revenue. Staff did not have to annualize revenue because the same rates that became effective in the most recent rate application Decision are the same rates that were in effect in the prior Decision No. 68747 dated June 6, 2006. The same rates are applicable for the entire 2006 test year. Staff's recommended operating income is ~~\$59,772~~ <sup>61,344</sup>. See Schedules CRM-7 and CRM-8.

#### **Operating Expenses:**

Staff's adjustments to operating expenses resulted in a decrease of \$1,674 from \$218,821 to \$217,147 as shown on Schedule CRM-6 and CRM-7. Adjustments are discussed below.

Adjustment 1: Staff decreased other water revenues by \$793 from \$2,793 to \$2,000 to more clearly reflect the Staff's analysis of other water revenues received in year 2007, and the amount received thus far in the 2008 year.

The Company does not expect any additional growth, and other water revenue has decreased considerably in the one and one-half years after the test year. Staff reviewed the amount of other water revenues collected thus far in the year 2008. The amount collected from

January 2008 through May 2008 is less than \$1,000. Based on this information Staff adjusted the other water revenues to reflect this finding. Staff recommends adjusting other water revenue to a level that more clearly reflects the correct amount expected to be received on a going-forward basis. See Schedule CRM-8.

Adjustment 2: Staff decreased office supplies and expense by \$152, from \$16,172 to \$16,020, to remove the cost of the Company's Christmas dinner held at a local restaurant because it was a social event and not necessary to provide service. See Schedule CRM-9.

Adjustment 3: Staff decreased water testing by \$287 from \$4,290 to \$4,003 to reflect Staff's recommended expense level. This adjustment reflects the annual water testing costs determined per Staff's Engineering Report at Table A. See Schedule CRM- 10.

Adjustment 4: Staff decreased Repairs and Maintenance Expense by \$678, from \$12,097 to \$11,419, to remove the cost, not covered by insurance, of body repair to the Toyota pickup which was involved in an accident. Staff believes this to be a non-recurring expense. See Schedule CRM-11

Adjustment 5: Staff increased depreciation expense by \$1,724, from \$33,669 to \$35,393, to reflect the amount of depreciation expense on a going-forward basis. See Schedule CRM- 12.

Adjustment 6: Staff decreased property taxes by \$2,281, from \$14,139 to \$11,858, to reflect the decreased property taxes due to the Company, including prior year's past due property taxes paid in 2006. The property taxes were further decreased by \$1,910 from \$11,858 to \$9,948, based on Staff's recommended revenue. See Schedules CRM-13 and CRM-16.

### Operating Margin

Staff's recommended rates and charges would provide an operating income of ~~\$59,772~~<sup>61,344</sup> for an operating margin of ~~21.73~~<sup>23.31</sup> percent. The operating margin is abnormally high in this instance because the operating margin is driven by the DCS to give the Company sufficient cash to service its debt and for contingencies. See Schedule CRM-1.

### Revenue Requirement

The operating revenue for the Company has not been increased in approximately six years.

Revenue stability is an important concern because the Company must pay the debt service on three separate loans. The Company is a non-profit corporation.

Staff recommends total operating revenue of \$275,009, an increase of \$45,090, over the Staff's adjusted test year revenue of \$229,919. Staff's recommendation provides operating income of ~~\$59,772~~<sup>61,344</sup>. The revenue requirement is driven by a DSC of 1.66. See Schedules CRM-1 and CRM-15.